

**REPORT OF THE AUDIT OF THE
FORMER MONROE COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through December 31, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT OF THE
FORMER MONROE COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through December 31, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the former Monroe County Sheriff for the period April 16, 2014 through December 31, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected 2014 taxes of \$3,017,073 for the districts for the period April 16, 2014 through December 31, 2014, retaining commissions of \$115,844 to operate the former Sheriff's office. The former Sheriff distributed 2014 taxes of \$2,901,485 to the districts. Taxes of \$656 are due to the districts from the former Sheriff and refunds of \$1,293 are due to the former Sheriff from the taxing districts.

Report Comments:

- 2014-001 The Former Sheriff Should Have Deposited All Funds Intact On A Daily Basis
- 2014-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The former Sheriff's deposits as of December 18, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$572,826

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Tommy Willett, Monroe County Judge/Executive
Honorable Roger Barlow, Former Monroe County Sheriff
Honorable Roger Dale Ford, Monroe County Sheriff
Members of the Monroe County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Monroe County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
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Members of the Monroe County Fiscal Court

Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former Monroe County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through December 31, 2014 of the former Monroe County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 on our consideration of the former Monroe County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Monroe County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Tommy Willett, Monroe County Judge/Executive

Honorable Roger Barlow, Former Monroe County Sheriff

Honorable Roger Dale Ford, Monroe County Sheriff

Members of the Monroe County Fiscal Court

Other Reporting Required By Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2014-001 The Former Sheriff Should Have Deposited All Funds Intact On A Daily Basis

2014-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon

Auditor of Public Accounts

October 30, 2015

MONROE COUNTY
 ROGER BARLOW, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through December 31, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 249,544	\$ 665,261	\$ 1,420,698	\$ 345,958
Tangible Personal Property	34,896	93,799	174,827	96,726
Fire Protection	1,833			
Franchise Taxes	49,374	132,416	255,011	
Additional Billings	103	276	589	144
Adjusted to Sheriff's Receipt	(24)	(36)	(82)	(25)
Gross Chargeable to Sheriff	<u>335,726</u>	<u>891,716</u>	<u>1,851,043</u>	<u>442,803</u>
<u>Credits</u>				
Exonerations	529	1,410	3,011	733
Discounts	4,435	11,762	24,591	6,931
Franchise Taxes	15,193	40,761	78,535	
Transfers To Incoming Sheriff	<u>29,521</u>	<u>78,365</u>	<u>166,645</u>	<u>41,793</u>
Total Credits	<u>49,678</u>	<u>132,298</u>	<u>272,782</u>	<u>49,457</u>
Taxes Collected	286,048	759,418	1,578,261	393,346
Less: Commissions *	<u>12,157</u>	<u>31,727</u>	<u>55,239</u>	<u>16,721</u>
Taxes Due	273,891	727,691	1,523,022	376,625
Taxes Paid	274,079	728,309	1,522,472	376,625
Refunds (Current and Prior Year)	<u>46</u>	<u>126</u>	<u>209</u>	
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (234)</u>	<u>\$ (744)</u>	<u>\$ 341</u>	<u>\$ 0</u>
		**		
* Commissions:				
4.25% on	\$ 1,219,680			
4% on	\$ 219,132			
3.50% on	\$ 1,578,261			
** Special Taxing Districts:				
Library District	\$ (330)			
Health District	(539)			
Extension District	(183)			
Soil Conservation	(7)			
Ambulance District	<u>315</u>			
Due District or (Refunds Due Sheriff)	<u>\$ (744)</u>			

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Monroe County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MONROE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2014
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 18, 2014 public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$572,826

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 2014 through December 31, 2014.

Note 4. Interest Income

The former Monroe County Sheriff earned \$124 as interest income on 2014 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office. As of October 31, 2015, the former Sheriff owed \$16 in interest to the school district and \$13 in interest to his fee account.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts

The former Sheriff deposited unrefundable duplicate payments and unexplained receipts in noninterest-bearing accounts. The former Sheriff's escrowed amounts were as follows:

2012	\$671
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KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Willett, Monroe County Judge/Executive
Honorable Roger Barlow, Former Monroe County Sheriff
Honorable Roger Dale Ford, Monroe County Sheriff
Members of the Monroe County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the former Monroe County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated October 30, 2015. The former Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Monroe County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Monroe County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Monroe County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-002 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

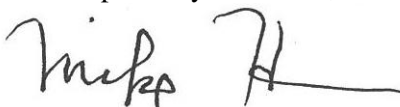
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Monroe County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2014-001.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

October 30, 2015

COMMENTS AND RECOMMENDATIONS

MONROE COUNTY
ROGER BARLOW, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2014 Through December 31, 2014

STATE LAWS AND REGULATIONS:

2014-001 The Former Sheriff Should Have Deposited All Funds Intact On A Daily Basis

During our review of receipts, it was noted that the former Sheriff did not deposit funds collected for regular taxes on December 10, 2014 until December 16, 2014. In addition, three payments for franchise taxes received in January 2014 and two franchise payments received in July and August 2014 were not deposited and paid to the taxing districts until November 2014. All franchise payments received during the month of December 2014 were not deposited until January 2, 2015. This is in non-compliance with KRS 68.210, 109 KAR 15:020, and KRS 134.191. KRS 68.210 states the State Local Finance Officer “shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials.” The *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual*, under “Handling Public Funds,” states a minimum requirement of “Daily deposits intact into a federally insured banking institution.” KRS 134.191 requires the sheriff to report and pay all taxes collected to the state, county, and other taxing districts by the tenth of the month. The sooner cash/checks are deposited, the less exposure to theft or loss of funds.

Former Sheriff's Response: The former Sheriff did not respond.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

The former Sheriff's office lacked adequate segregation of duties over receipts and disbursements. The former Sheriff's bookkeepers collected payments from customers and prepared daily collection reports, deposits, and monthly tax reports. Upon preparation of the monthly reports, the bookkeepers prepared and signed the checks. They also prepared the monthly bank reconciliations.

Lack of oversight could have resulted in undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

Adequate segregation of duties would have prevented the same person from having a significant role in the process and recording of receipts and disbursements. The former Sheriff should have offset the lack of segregation of duties by implementing compensating controls such as periodically performing surprise cash counts, reviewing the bank reconciliations, and comparing the daily deposits to the daily collection report and the receipts ledger, reconciling any differences. In addition, the former Sheriff could have compared the monthly reports to the receipts and disbursements ledgers for accuracy. Compensating controls should have been documented by initialing and dating the bank reconciliations, bank deposits, daily collection reports, receipts and disbursements ledgers, and monthly tax reports.

Former Sheriff's Response: The former Sheriff did not respond.

